

Message Text

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15

ACTION SS-20

INFO OCT-01 ISO-00 AF-10 ARA-16 EA-11 EUR-25 NEA-10 RSC-01

SCEM-02 CIEP-02 CIAE-00 DODE-00 PM-07 *-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 PRS-01 SPC-03 USIA-15

ACDA-19 IO-14 EB-11 COME-00 TRSE-00 OMB-01 INT-08

SSO-00 NSCE-00 SCI-06 STR-08 DRC-01 /222 W

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R 100402Z DEC 73

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 5637

INFO USINT ALGIERS

AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TEL AVIV

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

C O N F I D E N T I A L JIDDA 5420

BEIRUT PASS BAGHDAD

KUWAIT PASS DOHA AND MUSCAT

FOR UNDER SECRETARY CASEY, FEDERAL ENERGY ADMINISTRATOR
SIMON, CIEP FLANIGAN IN WHITE HOUSE, AND DEPUTY UNDER
SECRETARY DONALDSON FROM AMBASSADOR AKINS

E.O. 11652: GDS

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TAGS: PFOR, ENRG, EFIN, BEXP,8SA

REF: A) JIDDA 5375; B) CARACAS A-455

1. SUMMARY: SUITABLE USG RESPONSE TO EUROPEAN AND JAPANESE DRIVE TO ASSURE SPECIAL ACCESS TO SAUDI CRUDE COUPLED WITH SAG DESIRE FOR BOTH INDUSTRIAL AND FINANCIAL INCENTIVES BEFORE COMMITTING ITSELF TO ANY HEAVY ANNUAL INCREASES IN PRODUCTION WILL REQUIRE HIGH-LEVEL PLANNING IN WASHINGTON FOLLOWED BY VISITS TO THE KINGDOM BY KEY FIGURES. END SUMMARY.

2. IN PAST FEW WEEKS WE HAVE BEEN STRUCK BY THE CONTINUED EFFORTS BY EUROPEANS AND JAPANESE IN WORKING TO CREATE LONG-TERM TIES WITH SAUDI ARABIA EVEN DURING THIS PERIOD OF UNCERTAINTY, CRISIS AND OIL CUTBACKS. REFTEL (A) DETAILS SOME OF THESE EFFORTS AND SUGGESTS FORWARD PLANNING ON A SIMILAR AND COMPREHENSIVE U.S. PROGRAM FOR SAUDI ARABIA.

3. WE WOULD LIKE TO URGE YOUR OWN PERSONAL INVOLVEMENT IN PLANNING SUCH A USG PROGRAM IN ANTICIPATION OF THE ENDING OF THE EMBARGO. THIS SHOULD BE KEYED TO THE NEED NOW OPENLY BEING DISCUSSED BY MINISTER YAMANI AND OTHER SAG OFFICIALS FOR A SPECIAL EFFORT BY INDUSTRIALIZED NATIONS TO A) SPEED THE KINGDOM'S INDUSTRIAL DEVELOPMENT; AND B) SECURE A PROTECTIVE SYSTEM FOR THEIR FINANCIAL RESERVES, BEFORE SAUDI ARABIA WILL CONSIDER INCREASING ITS PRODUCTION LEVEL MUCH BEYOND THE 1973 HIGH POINT OF NINE MILLION BBLS/DAY. PRESENT PROJECTS WILL ONLY CARRY SAUDI PRODUCTION TO 11.7 MBD BY MID-1975 AND THE VERY EARLIEST DECISIONS NEED TO BE TAKEN ON FURTHER EXPANSION IF DISRUPTIONS IN ENERGY GROWTH ARE TO BE AVOIDED IN THE MIDDLE YEARS OF THIS DECADE.

4. AS NOTED IN REF (A), FIRST PRIORITY SHOULD BE GIVEN TO HIGH-LEVEL FINANCIAL TEAM THAT IS PREPARED TO DISCUSS POSSIBLE SPECIAL COMMODITY-COUNTRY INVESTMENT FUNDS; SUCH FUNDS SHOULD GIVE AT LEAST SOME PROTECTION AGAINST INFLATION, AND NOT ASSESS PENALTIES ON THESE PARTICULAR SURPLUS-RESERVE COUNTRIES BUT ENCOURAGE THEM TO PRODUCE NEEDED COMMODITIES UNDER CONTEMPLATED NEW MONETARY SYSTEM. WE KNOW PLANS HAVE BEEN PROPOSED TO IMF AND ARE BEING REWORKED, BUT WE BELIEVE THAT IN POSTWAR ATMOSPHERE CONSIDERABLE MORE MAY HAVE TO BE
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OFFERED IN WAY OF RESERVE-GROWTH SYSTEM AND INVESTMENT GUARDS. WE ARE IN POSITION OF MONETARY LEADERSHIP ON THIS AND AS USUAL NEED TO TAKE INITIATIVES IF ANYTHING IS TO BE ACCOMPLISHED ON A MULTILATERAL BASIS. WE WILL ONLY HAVE A SHORT TIME IN WHICH TO WORK BEFORE SAUDIS SERIOUSLY QUESTION WHOLE CONCEPT OF CONTINUING TO PRODUCE MORE OIL THAN THEY NEED TO ASSURE SPENDABLE INCOME.

5. SECOND BUT PARALLEL EFFORT MUST BE MADE IN SPEEDING INDUSTRIAL INVESTMENT WITH POSSIBLE SPECIAL USG INCENTIVES FOR

COMPANIES TO OPERATE IN SAUDI ARABIA AND DEVELOP THE INDUSTRIAL BASE OF THE COUNTRY. REF (B) IS ESPECIALLY IMAGINATIVE APPROACH TO THIS PROBLEM FROM U.S. STANDPOINT. WE KNOW MUCH MORE TODAY THAN YEAR AGO ABOUT POTENTIAL LIMITS OF SAUDI ARABIAN INDUSTRIAL GROWTH AND THE SAUDI MANPOWER PROBLEM. WE BELIEVE WASHINGTON SHOULD ORGANIZE A TASK FORCE ON THE SUBJECT TO IDENTIFY AND DEAL WITH THE MANY BOTTLENECKS TO MAXIMUM SAUDI INDUSTRIAL AND SOCIAL DEVELOPMENT. THE MORE SUCCESSFUL WE ARE IN INTERGRATING SAUDI PETROLEUM AND OTHER INDUSTRY INTO THE WORLD SYSTEM, THE MORE OIL THE KINGDOM WILL PRODUCE AND THE LESS LIKELIHOOD OF STOPPAGES OCCURRING. WE RECOGNIZE THAT THERE WILL BE VERY REAL LIMITS TO CAPITAL INVESTMENT IN KINGDOM. PLANNERS ARE SUGGESTING THAT TOTAL INDUSTRIAL CAPITAL INVESTMENT DURING COMING TEN YEARS MAY BE ONLY 10-15 BILLION DOLLARS. EVEN IF THIS TURNS OUT TO BE ON LOW SIDE, INDUSTRIAL INVESTMENT CANNOT EXPECT TO KEEP PACE WITH SAG'S EARNINGS OF UP TO \$100 BILLION IN THIS DECADE FROM INCREASED PRODUCTION OF CRUDE. WITHOUT SUBSTANTIAL (TEN PERCENT OR MORE) ANNUAL INCREASES IN SAUDI PRODUCTION, THE PRICE OF CRUDE WORLD-WIDE WILL GO UNPREDICTABLY HIGHER.

6. DOUBLING RATE OF PRODUCTION OF SAUDI CRUDE TO 18 MBD IN THIS DECADE, WHICH SHOULD BE OUR MINIMUM GOAL, WILL REQUIRE HIGHLY PERSUASIVE PRIVATE AND OFFICIAL EFFORTS. U.S. FIRMS ARE CLEARLY WORKING HARD ON SAUDI INDUSTRIALIZATION. THEY ARE ALSO MOVING FORWARD WITH IMAGINATION ON PLANS FOR PARALLEL USE OF SAUDI CAPITAL IN DEVELOPING REMANDER OF ARAB WORLD. (THERE MAY EVEN BE SOME ROLE FOR WESTERN COMPANIES AND GOVERNMENTS IN DEVELOPMENT OF PALESTINE USING SAUDI MONEY.) OUR FIRST AIM SHOULD BE TO REVERSE THE TREND IN SAUDI THINKING WHICH JUSTIFIES KEEPING THE OIL IN THE GROUND BECAUSE OF INFLATION AND
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THREATS OF MULTIPLE DEVALUATIONS. AMONG POSITIVE ELEMENTS IN SITUATION IS THE NEW DEDICATION OF SAG TO DEVELOPMENT AS SECOND FIVE-YEAR PLAN IS BEING READIED FOR UNVEILING AND SIGNS SAG IS SHOWING SOME INTEREST IN BECOMING AN INDUSTRIAL AND FINANCIAL POWER IN THE WORLD, NOT JUST AN OIL POWER. USG SHOULD ENCOURAGE THESE POSITIVE TRENDS.

7. WE SUGGEST THAT AFTER COORDINATION ON BOTH MONETARY AND INDUSTRIALIZATION STRATEGIES AMONG WASHINGTON AGENCIES, PLANS BE LAID FOR VISITS OF KEY USG (AND PERHAPS PRIVATE) FIGURES INCLUDING QUITE POSSIBLY MEMBERS OF CONGRESS.
AKINS

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